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USPS/PRC SUMMIT PANEL EXPLORES SERVICE STANDARDS/MEASUREMENT ISSUES

A panel of major USPS customers earlier this week discussed the service standards and performance measurement aspects of the Postal Accountability and Enhancement Act (PAEA) at the USPS/PRC summit. The new law requires that the Postal Service establish service standards and performance measurement for all market-dominant products. The USPS has begun this process through the formation of an MTAC workgroup (see *PostCom Bulletin* 11-07 for more information on the workgroup).

Speaking last but not least after a full day discussing various aspects of the postal reform law, all four panelists on the service standards and measurement panel agreed that the Postal Service's service standards and its ability to perform to those standards are critically important to their businesses.

On Service Needs. Jim O'Brien, Director of Distribution and Postal Affairs, Time Inc. and PostCom Chairman, said that service is really important to his company, which spends over \$600 million in postage annually across different classes of mail. "To ensure the best service for our mail," O'Brien said, "we try to understand the Postal Service's operations then develop mail programs to maximize efficiency on service and cost." "We try to fit our mail preparation to their operations to help improve service," he noted.

On the question of whether service consistency or speed are most important, O'Brien responded "yes." "We are competing with other media," he said, "so speed is important, but consistency of delivery is just as important."

Bill McComb, Director of Operations Support, Netflix Inc., told summit attendees that service is the key to Netflix's success. The company is the fastest growing First-Class Mail (FCM) user the Postal Service has, he noted, and is now in their top 10 FCM volume mailers. Three years ago, Netflix had about one million subscribers, McComb reported, and as of last month it topped 6.3 million. "One day service is the key to that success," he said, noting that Netflix currently has about 44 distribution centers across the country and more on the drawing board. "When we open a distribution center," he explained, "and can take 3 day service to 1 day service, the growth patterns escalate," he said. He predicted that by 2010-2012 Netflix will have 20 million subscribers.

"Our single biggest marketing tool is word of mouth," McComb told the summit audience. "But that can be a two-way sword," he said, "because when service is lacking, we lose customers." "The Postal Service and Netflix have a mutual set of customers we both have to satisfy," McComb said.

"We have a unique opportunity under the new law to engage in an open and productive dialog with the Postal Service and Postal Regulatory Commission," said Dan Emens, First Vice President, Marketing Operations, Chase Card Services. Emens noted that Chase is a large mailer of both First-Class Mail and Standard Mail, with total volume of about 3.5 billion pieces per year. "Consistency and predictability are important," he noted. "If I know with a high level of assurance what I can expect in terms of delivery performance, I can adjust our marketing accordingly," Emens said. He noted that financial institutions like Chase and others must legally use the mail for existing customers, as well as using the mail as an acquisition stream for new customers.

Ben Lamm, Director of Mail Operations, Capital One, told Summit attendees that Capital One has a strong relationship with the Postal Service based on sharing of business needs and an open dialog, which achieves a win-win for both. "Predictability of rates is essential," Lamm said, "but predictability of delivery is also essential." "Looking at it from the consumer's seat," he noted, "they want to know when their payments sent back through the USPS will be delivered." "They have to send it in plenty of time right now because they can't predict delivery so they have to pad in extra time or run the risk of late payments," Lamm explained.

Capital One mails about 2.5 billion pieces of mail each year, primarily letters, but a mixture of shapes in both First-Class Mail and Standard Mail.

On Setting Service Standards. “We need service standards for all classes of mail,” O’Brien told the summit crowd, “with no child left behind.”

“A more consistent methodology is needed for First-Class Mail service standards,” McCombs said. “There is a huge difference in the size of 1-day service areas across the country,” he said, “and not all the standards are equally reciprocal.” McCombs, who formerly served as an USPS Area Vice President, said Netflix would like to see more standardized critical entry times (CETs) and pick-up times. “We view that as a standard in itself,” he commented. “Our whole operation is geared around meeting the Postal Service’s critical entry times and our mail pick-up times,” he reported. “Our business model is based on getting to the customer as quickly as possible,” he said.

“You have to realize that it’s not one-size-fits-all,” O’Brien told the Summit crowd. “For Periodicals, Zone+1 doesn’t work any more.” “The service standards need to reflect the operational realities of the Postal Service and align with how mail is prepared, entered and whether it meets critical entry times,” he said.

“There are two viewpoints on what the appropriate service standard target for the USPS should be,” Lamm told the summit audience. “You can start by setting a baseline standard,” he said, “and some results will be in the 90% range today, but some will be in the 50% range.” “There’s no point in setting a 90% target for what is in the 50% range today,” he suggested, “and requiring them to achieve it tomorrow.” “Or, you can set the baseline today and have expectations of incremental improvement over time,” he said. “What should the target ultimately be?” “We expect 98% from other suppliers,” Lamm reported, “which allows margin for the stuff that happens, but also allows management to make small trade-off decisions.” “In my opinion,” he summarized, “the target ultimately should be 98% of better, but start with the baseline and a plan for improvement.”

On Measuring USPS Service Performance. “You can’t manage what you can’t measure,” Lamm quoted the old adage. “The USPS needs to provide a system-wide measurement tool,” he said, “but we will go beyond that and do our own measurements for more specific data on the mail we are sending or the type of customers we have interaction with.” “But we have an expectation for a base set of measurements,” he said, “and that system needs to be driven more broadly than today so it presents a reliable unbiased measurement system.”

Both Time Inc. and Netflix reported that they currently measure their own service and share that data with the Postal Service. “We sample five percent in every ZIP Code every day,” McComb said of Netflix, “through an e-mail survey.” The results are rolled up into weekly reports.

“We have our own seed program and send free copies of our magazine to 700 people throughout U. S. spread by population,” O’Brien reported of Time Inc. “The seeds send a report back on internet, and we make those reports available to the USPS electronically so they can identify service problem areas,” he said.

“There are some overarching thoughts on service performance to consider,” Emens recommended. “The measurement needs to be objective, free of interference, robust, and provide an end-to-end view,” he said. “The sample size needs to be representative of the whole, which will vary with the class of mail,” he suggested. “In terms of service performance measurement reporting,” Emens told the summit crowd, “the level of aggregation is critical.” “The data should be disaggregated to a very detailed level,” he said, “and let the customer roll it up to fit their needs.” “The results should be published on scheduled cycle, perhaps as frequently as weekly,” he recommended, “so businesses can react to changing circumstances.”

O’Brien said service measurement also should reflect the realities of the network, and the USPS should not be held accountable for events beyond its control like power failures, weather, disasters, etc. “You also have to select a diverse group of products to seed and then rotate those seeds periodically so no one can identify who the seeds

are,” he said, referring to the EXFC fiasco some years ago where seed mail was identified by postal employees and given expedited treatment.

“Communication needs to be the mantra,” Emens said. “Service performance measurement needs to be communicated regularly, frequently, frankly and openly,” he recommended, “with nothing sacred.” “We need to share data on both sides and work jointly and collaboratively to identify issues, put action plans in place, and balance those decisions with potential cost impacts,” Emens noted. “We want the best service we can get at the lowest cost,” he said.

Speaking from the summit audience, Wendy Smith, Publishers Clearing House, said that Standard Mail parcels should have a free track and trace service as a baseline like that available to Parcel Select. “The lack of track and trace for small parcel mailers is a barrier to those mailers using the Postal Service,” she said. “If the service were available it would attract more mailers in that niche,” Smith offered.

On Intelligent Mail. “The USPS needs to put in place tools that have the potential to shift service performance measurement to a more passive mode,” McComb said. “Our company has data that says we are losing customers,” he reported, “and what the impact of that is on the Postal Service is not a matter well addressed at this point.” McComb said Netflix has created a quarterly business review with the Postal Service, but it is like “patching holes in the dyke.” “We need to figure out how to systemically resolve those issues,” he said.

“What’s in intelligent mail for our company?” O’Brien said. “Predictability, consistency, speed, and the data.” “We can take that data and when a customer calls to inquire about their delivery, we can empower our customer service staff to be able to say the magazine is at this location and you can expect delivery on Monday, for example,” he noted. “There is real power there in terms of renewal rates and volume generation,” he said.

On Sanctions. One issue that repeatedly was raised during the service standards panel as well as earlier panel discussions, was that of what sanctions should be levied against the Postal Service if it were not to meet its service standards.

“We need to look at gaining greater accountability from the postal management side,” said Emens. “Today, if the USPS doesn’t meet its service standards, what happens?” “We can make some calls, there are short term improvements, but nothing addresses the underlying causes,” he said. “The Postal Service should face reality as to where service is today and let customers and the public know what they can expect,” he advised, “then set the standards and a time line for moving those standards higher.”

But what is the penalty or sanction under the new law if the Postal Service does not make its service standards? “If you say we levy a fiscal sanction,” O’Brien said, “who pays for it – mailers do, through our rates.” “What good is that?” he asked.

O’Brien suggested that making service performance part of the Postal Service’s management pay-for-performance plan would act as a sanction. Ian Volner, Venable, questioned whether there would be enough money in the USPS’ bonus system to make it an effective sanction. “You can’t really impose a monetary sanction,” he suggested, “but what about remedies such as limiting the amount the USPS could increase rates to a percentage of CPI rather than the full CPI if service performance is deficient.” O’Brien said he felt that could cause a downward spiral for the USPS financially, but if the USPS has some margin and does not need to raise rates to the full CPI cap, it could do so anyway and throw the money to management bonuses for those that achieve service performance goals. “We would all net better results in the long term,” he suggested.

McComb, a former USPS executive, said that external measurement systems and tying service performance to management bonuses are systems that have been in place at the Postal Service for some time for First-Class Mail and

should continue to be built upon. He suggested that service improvement on its own would net positive results for the USPS. "If customers are satisfied with service," he said, "more revenue will pour in for the Postal Service."

Lamm agreed that monetary sanctions could be more harmful than helpful. "If service doesn't meet our standards and our customers' expectations," he said, "sanctions or penalties in the case of any other supplier would work, but for the Postal Service it is a different equation." "We don't want to harm the very service that we need," he said, "and we need a healthy Postal Service." "At the end of the day, if our needs are not met and the Postal Service is not a profitable delivery mechanism," he concluded, "our business will migrate elsewhere – not overnight – but we would start pooling our assets elsewhere in terms of alternate delivery options."

Emens suggested that public display of service performance results and USPS accountability to explain poor results could help the USPS focus on the service issues that need to be resolved. "Transparency, visibility, publicity about service performance is one of the most powerful motivators for anyone that strives for success," Lamm concurred.

Speaking from the audience, Gene Del Polito, PostCom President, noted that in private corporations criticisms raised relative to management ultimately fall on the Board of the corporation. "Where we define the bottom line for accountability," he suggested, "should be at the USPS Board of Governors level."